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TO RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION PRIORITY
RUEHSS/OECD POSTS COLLECTIVE PRIORITY
RUEHFK/AMCONSUL FUKUOKA PRIORITY 0768
RUEHNH/AMCONSUL NAHA PRIORITY 3132
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C O N F I D E N T I A L TOKYO 003079

SIPDIS

TREASURY IA FOR FOSTER, WINSHIP

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SUBJECT: PM ASO ANNOUNCES SECOND STIMULUS PACKAGE

REF: TOKYO 2393

Classified By: Deputy Chief of Mission James Zumwalt for reasons 1.4 b/d.

¶1. (C) Summary: Prime Minister Aso announced a new 26.9 trillion (\$269 billion), economic stimulus package October 30. The package equals 5.2% of Japan's GDP and is intended to mitigate the negative impact of the global credit crisis on Japan's real economy. The new stimulus package follows the August 29 \$106 billion stimulus package (ref). The proposed package consists of 2.5 trillion in tax cuts, 2.6 trillion in fiscal spending measures, and 21.8 trillion of government loan guarantees for SMEs. However, the direct impact of the package is estimated to be about 3.8 trillion, only 0.7% of GDP. End Summary.
Details of the Stimulus Package

¶2. (SBU) The most important elements of the new package, Japan's second in less than two months, are the commitment to provide 2 trillion (\$20 billion) in taxpayer payouts to all households by March 2009, and the passage of a new bank recapitalization law that will allow up to 10 trillion (\$100 billion) of public funds to be injected into regional and major banks. The package also contains a variety of other measures to stabilize the financial system, including government support of the Accounting Standard Board of Japan's reclassification of mark-to-market standards for certain financial instruments, allowance of capital adequacy ratio flexibility for domestically operating banks, and consideration of resuming share purchases through the Banks' Shareholding Purchase Corporation (BSCP). It also includes measures to support households and businesses through subsidy programs, increased SME loan guarantees, and a pledge to allow employees to contribute to defined contribution pension plans (in addition to present employer contributions).
Impact on Fiscal Budget

¶3. (SBU) The additional spending measures will be financed by a second supplemental budget for FY2008, which the Aso Cabinet plans to submit to the Diet in late November. Surplus funds in the Fiscal Loan Fund Special Account will also be used to secure necessary funding. Nonetheless, it is likely that a large-scale issuance of government bonds will be required, given already high levels of GOJ expenditures and smaller-than-estimated tax revenues resulting from the economic slowdown, casting doubt on the government's effort to reach primary fiscal balance by FY2011.
SCHIEFFER